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Ground Rules For House Trade Debate Determined

The House of Representatives on May 15 approved complicated ground rules for consideration of HR 4800, the omnibus trade package. The arrangement, devised under Rules Committee auspices, provides Republicans with one more chance to influence legislation that has borne a distinctively Democratic signature. The debate will also resolve several long-standing jurisdictional battles over control of trade-related matters between rival committees.

Under what is technically termed a "modified open-rule," general debate on the Trade and International Economic Policy Act of 1986 will be limited to three-and-a-half hours. One hour will be ceded to sponsoring and opposing members of the Ways and Means Committee, with consecutive half-hour slots provided to members of some six other panels so that they may control debate on pertinent sections. The rule also automatically accepts some corrections to

• Compilation of a supplementary budget - The prospects for a stimulative supplementary budget being passed this fall are increasing. Many Liberal Democratic Party members are pushing hard for new public works projects, and Mr. Nakasone is also inching toward such a position.

There is a growing consensus that even measures such as these are only stopgaps. Press sources said that LDP, business and labor leaders who met May 19 to discuss the yen-impact situation, agreed that perhaps the essence of the controversial Maekawa report -- which argues that Japan must re-orient its economy toward stimulating and meeting domestic demand (see JEI Report No. 13B, April 4, 1986) -- is correct. It was also agreed, however, that temporary adjustment measures, like the low-interest loan program, are necessary. U.S. officials are likely to be pleased with the first consensus but opposed to the second. Japanese policymakers are therefore preparing for plenty of summer heat, both domestic and foreign.

Jon Choy

Dollar Reverses Course -- At Least For Now

Treasury Secretary James Baker's comments on exchange rates last week helped reverse the dollar's downward trend -- at least temporarily. After hitting its eighth record low against the yen in 14 days May 12, the dollar rose nearly 5 percent to close at Y168.15=$1.00 May 19. It was also buoyed by calls from Prime Minister Yasuhiro Nakasone and West German central bank president Karl Poehl for coordinated intervention to prop up the dollar.

Mr. Baker, appearing May 13 before Senate trade and banking subcommittees, noted that the dollar has more than fully offset its earlier appreciation against the yen. While repeating that the administration has no target for the exchange rate, he said that he was concerned about "unwarranted interpretations that the market sometimes attaches to [such] statements." Mr. Baker's comments mark the first attempt by the administration to slow the dollar's slide since the Group of Five agreement last September to lower its value.

The Treasury Secretary's comments may reflect increasing concern that foreign capital will pull out of the U.S. market if the dollar's decline continues. This fear has been widely expressed by Federal Reserve Board chairman Paul Volcker, who said that the dollar's May 12 plunge below the Y160 level "doesn't make me happy." Some analysts had predicted that Japanese investors would sell more U.S. securities than they purchased in April, but there is little evidence thus far that the Japanese have lost their appetite for U.S. Treasury offerings. According to the Institute for International Economics, the Japanese invested a record $10 billion in American securities last month, up from the $6 to $7 billion a month that had been the norm. At the May 8 auction, press reports said that Japanese investors bought $5.5 billion worth of 30-year bonds and $2.5 billion in 10-year bonds, roughly twice the amount they purchased in February.

The dollar's rebound is likely to be limited by the sluggish U.S. economy and continuing large trade deficit, which Mr. Baker predicted would remain at about $125 billion this year on a balance of payments basis (both exports and imports valued f.o.b.) before dropping to $100 billion next year.

International Trade and Industry Minister Michio Watanabe said he expects the yen to stabilize between Y160-Y165=$1.00. Commerce Secretary Malcolm Baldrige, however, indicated his support for a further fall in the dollar, noting in congressional testimony May 14 that the dollar's decline against the yen had not been excessive and commenting that a further depreciation would not increase inflation.

Tokyo has no plans for a fourth cut in the official discount rate, according to Bank of Japan governor Satoshi Sumita. While the strong yen will slow growth somewhat, Mr. Sumita said he does not believe that it will have a major impact. Many business leaders are less optimistic. Noboru Gotoh, president of the Japan Chamber of Commerce and Industry, said that the strong yen had hit small businesses particularly hard. Small firms, which employ 80 percent of Japan's workforce, face declining exports and stiff rivalry in domestic markets, particularly from the newly industrialized countries. The yen's sharp appreciation relative to the currencies of Korea, Taiwan, Hong Kong and Singapore (see Table) will result in increased competition for many Japanese firms.

Yen's Appreciation Relative to
the Currencies of the Newly Industrialized Countries

Currency	September 2, 1985 to May 13, 1986	January 13, 1986 to May 13, 1986
Korean won	60.7%	30.7%
Taiwan dollar	42.4	18.8
Hong Kong dollar	46.5	24.5
Singapore dollar	44.1	30.4

Source: Nihon Keizai Shimbun, May 15, 1986.

Randall S. Jones

NTT's First-Year Performance

With Y780 billion ($4.7 billion at Y165=$1.00) in capital and 310,000 employees, Nippon Telegraph and Telephone Corp. is Japan's largest private corporation. Businessmen and investors have watched NTT closely in its first year as a private company. The telecommunications giant surprised even its own president by tentatively reporting a record profit for the year ending March 31, 1986. Although it is like comparing apples to oranges, NTT's performance compares favorably with American Telephone & Telegraph Co.'s 1985 results. Both have actively diversified operations to achieve growth but their approaches have been different.

While NTT has not released detailed figures, first-year operations look like a resounding success. In November 1985, NTT president Hisashi Shinto reported a total of Y2.5 trillion ($15.1 billion) in operating revenues in the first six months of private activity. This yielded an ordinary profit of Y170.6 billion ($1 billion) and an after-tax profit of Y76.9 billion ($466

political scene since his crippling stroke last year. Mr. Takeshita appears poised to inherit the bulk of the Tanaka faction, which provided the backing necessary for Mr. Nakasone to remain in office so long. The one remaining question is whether Mr. Nakasone can muster enough strength to help determine his successor -- and thus perpetuate his own influence -- should he decline to make a bid for a third term.

Michael W. Chinworth

Notes

o At JEI press time, President Reagan announced that imports of seven types of machine tools from Japan as well as from three other suppliers would be limited for up to five years through the negotiation of restraint arrangements. The May 20 decision came as little surprise since some form of assistance for American machine tool builders had been in the works for the past two months. What was unclear was whether the administration would tailor its long-delayed response to the industry's campaign for across-the-board protection from foreign competition on national security grounds in such a way to score points with Congress. The answer, delivered just hours before the House began consideration of a Democratic-authored comprehensive trade bill that administration officials have called unacceptably protectionist (see articles in this issue), was a decided yes.

The White House admittedly did not go as far as the National Machine Tool Builders' Association proposed in its March 1983 complaint -- a rollback in aggregate imports to 17.5 percent of the U.S. market for five years, with imports in 18 product lines capped at 20 percent of domestic sales. But this plan, as candid industry executives will acknowledge, was doomed from the start. Instead, American machine tool builders got the next best thing from a deeply divided administration. The four countries with which restraint agreements will be negotiated -- Japan plus West Germany, Taiwan and Switzerland -- supply roughly three-fourths of total U.S. imports, while the seven product lines targeted for restriction -- machining centers, numerically controlled lathes, milling machines and shearing and punching machines, and other lathes, milling machines and shearing and punching machines -- account for approximately half of all purchases from abroad.

Although the thrust of the White House's strategy is obvious, specific negotiating objectives are still in short supply. In particular, it is not known for certain how far back Washington will try to roll imports, although there is some indication that 1981 import levels are the goal. If true, this would mean a 16.3 percent cut for Japan (see Table), the dominant foreign supplier with 21.6 percent of the overall U.S. machine tool market last year. Uncertain as well is whether the restraint arrangements will be based on volume or value; so is the starting date for the agreements. What is clear, though, is that Japan and the other suppliers have six months to come to terms with Washington. Footdragging could result in a formal finding that machine tool imports are a threat to this country's national security and a decision to slap quotas on shipments -- a move President Reagan put on hold for the time being.

U.S. Imports of Machine Tools from Japan, 1981-85

(in millions of dollars, Customs value)

	1981	1982	1983	1984	1985
Machining Centers	$183.9	$168.1	$151.4	$227.0	$295.8
Numerically Controlled Lathes	258.6	179.4	95.5	169.6	217.6
Other Lathes	44.9	23.6	9.6	11.7	20.5
Numerically Controlled Milling Machines	16.3	8.1	6.4	10.3	46.7
Other Milling Machines	19.7	11.6	6.2	7.7	
Numerically Controlled Shearing and Punching Machines	16.3	14.9	12.6	33.6	72.6
Other Shearing and Punching Machines	7.1	6.7	6.5	9.1	
Subtotal	546.8	412.4	288.2	469.0	653.2
Total Imports from Japan	693.0	532.9	406.6	658.1	839.4

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

o The four-month search for candidates for a new round of MOSS (market-oriented, sector-selective) negotiations has come to a temporary end (see JEI Report No. 16B, April 25, 1986). Making a politically expedient U-turn, Tokyo announced May 7 that automotive parts and "other transportation-related" issues would be the next focus of the high-level sectoral talks.

Parts were on early State Department/Foreign Ministry lists of possible negotiating targets, but this product group was initially vetoed by other agencies in both governments. Ministry of International Trade and Industry officials argued that parts were an inappropriate subject for the sectoral talks since formal barriers were not the cause of whatever problems American manufacturers had in selling production components to Japanese automotive makers. They noted as well that the procurement policies of Japan's car and truck producers were already scheduled to be discussed in another bilateral forum.

With the Commerce Department taking a similar position at first, the search for an agenda for the second round of MOSS negotiations moved off in other directions, but these forays also encountered roadblocks. Worried that the lack of progress might provide additional ammunition for a protectionist-minded Congress, Foreign Ministry officials did some bureaucratic arm-twisting and produced agreement on automotive parts as the next subject of the sectoral talks.

o Two highly protectionist merchant marine provisions have missed inclusion in the omnibus trade bill pending in the House. The Merchant Marine and Fisheries Committee approved HR 3655 without amendment May 15. The measure requires a percentage of automotive exports from Japan to be transported on U.S. flag carriers (see JEI Report No. 17B, May 2, 1986). A formal report